# Tax Credit Workshop

# AGENDA

**March 4, 2005**

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|---|---|
| **8:30** | Registration |
| **9:00** | Welcome – Ted Rozeboom |
| | QAP Changes – Norm Harrod and Ted Rozeboom |
| **10:00** | **Break** |
| **10:15** | Scoring – Vic Allison |
| | Tax Credit Process and LIHTC Web Information – Carol Thompson |
| **11:00** | Cool Cities – Gary Heidel, Janet Irrer |
| | Question and Answer Panel<br>• Environmental Studies – Bruce Jeffries<br>• Market Studies – Gabe Labovitz<br>• Multi-family Housing – Marjorie Green<br>• PILOT – Ted Rozeboom<br>• AFHMP – Carl Bryson |
| **12:00** | **Lunch** |
| **1:00** | Special Needs Housing Addendum III – Janet Irrer, Sue Eby, Lisa Chapman |

# CONTACT LIST

## MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY

## ADVISEMENT PERSONNEL BY EXPERTISE

| NAME | UNIT | E-MAIL | PHONE |
|---|---|---|---|
| **MSHDA Staff** | | | |
| Ted Rozeboom | Director of Legal Affair | Rozeboomt@michigan.gov | 517-373-8295 |
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| **Historic Preservation Office** | | | |
| Robbert McKay | Historical Architect | MckayR@michigan.gov | 517-335-2727 |

# ACRONYMS

| | |
|---|---|
| AFHMP | Affirmative Fair Housing Marketing Plan |
| AFR | Applicable Federal Rate |
| AHP | Affordable Housing Program |
| AMGI | Area Median Gross Income |
| AMI | Area Median Income |
| BIN | Building Identification Number |
| CDBG | Community Development Block Grand |
| CHDO | Community Housing Development Organization |
| CIP | Community Improvement Program |
| CO | Carryover |
| CPA | Certified Public Accountant |
| DDA | Difficult to Develop Area |
| EEO | Equal Employment Opportunity |
| EC | Enterprise Community |
| EGI | Effective Gross Income |
| GPI | Gross Potential Income |
| EZ | Empowerment Zone |
| FHLB | Federal Home Loan Bank |
| GP | General Partner |
| GPI | Gross Potential Income |
| HOME | Home Investment Partnership Program |
| HOPE | Homeownership and Opportunity for People Everywhere |
| HUD | Department of Housing & Urban Development |
| LDHA | Limited Dividend Housing Association |
| LIHTC | Low Income Housing Tax Credit |
| LP | Limited Partnership |
| MSHDA | Michigan State Housing Development Authority |
| NP | Non Profit |
| PILOT | Payment In Lieu of Taxes |
| PIS | Placed In Service |
| QAP | Qualified Allocation Plan |
| QCT | Qualified Census Tract |
| RHS | Rural Housing Development |
| SMI | State Median Income |
| SRO | Single Room Occupancy |
| TC | Tax Credit |
| TDC | Total Development Cost |
| TE | Tax Exempt |
| TEB | Total Eligible Basis |
| TID | Taxpayer Identification |

# ELIGIBLE BASIS

**NOTE: This is not an authoritative pronouncement; it serves only as a guide.**

| INCLUDIBLE | NOT INCLUDIBLE |
|---|---|
| Accessory Buildings<br>Acquisition/Construction Management<br>Appraisal on Building<br>*Architectural Fees<br>Broker Fees<br>Builder Profit/Overhead<br>Construction Period Costs: Insurance, *Interest, *Loan Org. Fees, Credit Enhancement, Taxes, Utilities, Supervision, Contingency, Bond Prem.<br>Consultants/Managers<br>Contractor Overhead and Profit<br>Cost Certifications<br>*Developer Fee and Overhead<br>Draw Fees on Construction Financing<br>*Engineer/Survey<br>*Environmental Study<br>Existing Structures<br>* Feasibility Study<br>Garages/Carports if no fees<br>General Requirements<br>Hazard Liability Insurance<br>Inspection Fees - Building<br>*Landscaping<br>Major appliances, swimming pools, garages, carports, and parking lots for which there are no fees<br>*Market Study<br>New Construction<br>*On-Site/Off-Site Improvement<br>*Real Estate Attorney<br>Rehabilitation - Residential/Interior Demolition<br>*Tap fee/Soil Borings<br>Permits and Fees<br>Title Insurance<br>Utilities During Construction | Accounting - Building<br>Annual Audit<br>Compliance Monitoring<br>Compliance Set-Up Fee<br>Deferred Interest<br>Demolition (Complete Exterior)<br>Environmental Cleanup unless not discovered until after purchase<br>*Impact Fees<br>Land (Land Closing)<br>Legal Costs for Acquisition<br>Letter of Credit Fee<br>Major appliances, swim pools, garages, carports, and parking lots for which there are fees<br>Marketing (Advertising)<br>Organizational Accounting<br>Organizational Costs<br>Organizational Legal<br>Permanent Financing Fees and Expenses: Bond Premium, Credit Report, Loan Origination Fees, Credit Enhancement Fees, Issuing/Underwriting, Title and Recording, Counsel Fee, Financing Costs Points, Bridge Loan Fees/Interest<br>Rehabilitation - Commercial<br>Relocation costs for non-qualified tenants<br>Rent Up Costs (Marketing)<br>Reserves<br>Road and Utility Easements<br>Syndication Costs<br>Tax Credit Fees<br>Tax Opinion<br>Transfer Taxes and Recording Fees (Land Costs) |

*Refer to TAMs in Tab X of the Tax Credit Application

# HOME MONEY FACTS

**4% Credit:** HOME money is federal money which qualifies for the 4% tax credit.

However,

**9% Credit:** There are three options for HOME money to qualify for the 9% credit:

- if 40% of the units are rented at 50% of the Area Medium Gross Income (AMGI), or
- If the interest rate of the HOME loan is at or above the Applicable Federal Rate (AFR), or
- If HOME money is deducted from basis.

**130% Boost:** When using HOME money, a project that is located in a Qualified Census Tract (QCT) would receive the 130% increase only:

- if the loan is at or above the AFR or
- if the HOME money is taken out of basis or
- if the HOME money is treated as federal funds utilizing the 4% credit.

The 130% increase is not allowed for projects qualifying for the 9% credit by reserving 40% of the units for tenants at 50% AMGI.

**Grants:** They are always subtracted from eligible basis.

# News Release

Renewal Communities





**HUD No. 02-013DET**
**Contact: Kenneth J. Barnard**
**(313) 226-7900**

**For Release**
**Tuesday**
**January 22, 2002**

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**HUD ANNOUNCES DETROIT AND FLINT SELECTED AS RENEWAL COMMU**
**ELIGIBLE FOR $17 BILLION IN TAX INCENTIVES**

DETROIT - The Department of Housing and Urban Development today a Detroit and Flint each will be designated a "Renewal Community," eligib in an estimated $17 billion in tax incentives to stimulate job growth, pr economic development and create affordable housing. The 2000 Comm Renewal Tax Relief Act established the Renewal Community Initiative th encourage public-private collaboration to generate economic developme distressed communities around the country.

As a result of this Renewal Community designation, Detroit and Flint wi regulatory relief and tax breaks to help local businesses provide more j promote community revitalization.

"These tax incentives will help businesses grow in some of our country' challenging communities," said Donald Mains, Deputy Assistant Secreta Economic Development, HUD. "By creating the incentives that will prom growth and economic development, we are joining with the private sect restore economic vitality and restore whole communities in the process

Renewal Communities will use the power of public and private partnersl build a framework of economic revitalization in areas that experience hi unemployment and shortages of affordable housing.

"A job and a paycheck goes a lot further toward building strong familie communities than any handout ever will," said Congressman Mike Roge incentives can drive the economic renewal of communities and build a s future for workers through job creation and worker training. While work the Administration in support of Michigan applications for renewal comr zones, it has been apparent there is a commitment to renew our great providing the economic tools to grow strong and vital. Today's announc underscores that resolve."

An estimated $6 billion in tax incentives are exclusively available for Re Communities across the country. As distressed areas, Renewal Commu

also be eligible to share in an additional $11 billion in Low-Income Hous
New Market Tax Credits.

These new RCs can take advantage of wage credits, tax deductions, ca
exclusions and bond financing to stimulate economic development and
Each incentive is tailored to meet the particular needs of a business an
significant inducement for companies to locate and hire additional work

Michigan State Housing Development Authority (MSHDA) Executive Dir
Logue said, "On behalf of Governor Engler, we applaud HUD's decision i
designating Detroit and Flint as Renewal Communities (RC). The combi
the RC incentives and those provided through the Michigan Renaissance
program provide important tools in helping Mayor Kilpatrick and Mayor
revitalize their cities. As the Michigan Low Income Housing Tax Credit a
agency, MSHDA looks forward to working with both Mayors."

Forty percent of the more than 190,000 residents in the Detroit Renew
Community live in poverty and can't afford basic necessities for their fa
Almost twice that are low income and twenty-five percent are unemplo
cutting taxes, increasing local services through Neighborhood First, red
and reducing government requirements, Detroit hopes to attract busine
the 25-square mile area that will make up its Renewal Community. In a
Detroit Renewal Community will work with community-based organizati
reduce burdens and to improve services for its residents and businesse

Detroit Interim Deputy Mayor Conrad Mallett said, "This Renewal Comm
designation will give Detroit a solid foundation from which to begin the
neighborhood revitalization."

Almost 50 percent of the residents in the Flint Renewal Community live
and 71 percent are low-income households. Twenty-eight percent are u
and can benefit through job and skills training, education, transportatio
support services. A Renewal Community Skill Development Task Force
established through the CoRA to respond to the specific labor needs of
attracted by the Renewal Community designation. In addition, Flint will
taxes in the Renewal Community to attract new investments for econor
base growth, continue community-based crime prevention, involve com
partners and solicit in-kind donations to fill in the gaps in public funding

"This designation is a tremendous achievement for the people of Flint,"
Mayor Woodrow Stanley. "The tax incentives contained in this program
Flint residents for years into the future. This is a proud day for every re
Flint."

**Tax Credits**

- *Wage credits* are especially attractive to businesses looking to gr
  businesses are able to hire and retain RC residents and apply the
  against their federal tax liability. Businesses operating in the new
  Community will enjoy up to a $1,500 credit for every newly hired
  employee who lives and works in the RC.
- *Work Opportunity Credits* provide businesses in Renewal Commu
  up to $2,400 against their Federal tax liability for each employee
  groups with traditionally high unemployment rates or other speci

employment needs, including youth who live in the RC.

- *Welfare to Work Credits* offer businesses a credit of up to $3,500 year of employment) and $5,000 (in the second year) for each ne long-term welfare recipient.

**Tax Deductions**

- *Commercial Revitalization Deductions* permit a State with one or to deduct $12 million per RC per year, up to $10 million per proje commercial or industrial buildings developed in the RCs. A busine deduct up to $5 million in the year the building is placed in servic the full amount of eligible expenditures pro rata over 10 years.
- *Section 179 Deductions* under the tax code allow a qualified Rene Community business to expense up to $35,000 of additional quali property such as equipment and machinery acquired each year dı period of the RC designation, 2002 through 2009.
- *Environmental Cleanup Cost Deductions* allow businesses to dedu cleanup costs in Brownfields.

**Capital Gains Exclusions**

*Zero Percent Capital Gains Rate* applies to an interest in, or property of businesses operating in a Renewal Community, if the asset is acquired period of the RC designation and held for at least 5 years.

**Bond Financing**

*Qualified Zone Academy Bonds* allow state and local governments to m interest loans with private funding sources to finance public school renc and programs.

In addition to the incentives described above, HUD will provide technica assistance to these communities to help make businesses fully aware o opportunities available to them. To make certain the Renewal Commun successful in the initial stages of their designations, HUD will host an Implementation Conference in the spring of 2002 where the newly desi will meet to hear from experts in the fields of business, taxes and econ development.

**Other Incentives**

Like all distressed communities, Renewal Communities will also be able advantage of the *New Markets Tax Credits* that provide investors with a against their federal taxes of 5 to 6 percent of the amount invested in a area. Also available to Renewal Communities is the *Low-Income Housin Credit* providing credit against Federal taxes for owners of newly constr renovated rental housing.

The 2000 Community Renewal Tax Relief Act authorized HUD to design Renewal Communities and seven new urban Empowerment Zones. HUD more than 100 Renewal Community applications from communities aro country. Urban RC applicants were ranked according to their 1990 Cens poverty, unemployment and low-income households. Rural RC applican exempt from the household income factor. Bonus points were given for

JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF LABOR & ECONOMIC GROWTH
LANSING

DAVID C. HOLLISTER
DIRECTOR

January 11, 2005


# The 2005 Cool Cities Grants & Planning Programs
# OVERVIEW

**WHAT IS THE COOL CITIES INITIATIVE?** Building vibrant, energetic cities that attract jobs, people and opportunity to our state is a key component of Michigan Governor Jennifer Granholm's economic vision for Michigan. Cities are made up of neighborhoods and the guiding principles of this initiative are based on best practices used in neighborhoods of the most competitive communities in the United States and around the world. We are employing these principles as a framework to strengthen our neighborhoods so they will attract jobs and people, especially people with skills businesses need.

The principles include: supporting innovation, growing our talent, embracing diversity, investing in and building on quality of place, thinking regionally and acting locally, and making new connections. We are doing this through extensive outreach and education, specific **Cool Cities Grants & Planning Programs,** our website, and the unprecedented collaboration among state agencies that has resulted in the compilation of the State Resource Toolbox.

The Resource Toolbox promotes holistic approaches and ongoing investment in neighborhoods that have, or are moving to create quality of place: a mix of residential, commercial and community uses, mixed-income housing, and a pedestrian-friendly-environment. The Resource Toolbox comprises key state agency resources–grant funds, loans, tax credits, or services—that can help create vibrant, mixed-use neighborhoods. When combined with private and local public investment, plus good old-fashioned ingenuity and creativity, these tools can help transform our neighborhoods.

**WHAT ARE THE COOL CITIES GRANTS & PLANNING PROGRAMS?**
Cool Cities Grants & Planning Programs include:

- Cool Cities Neighborhoods in Progress (known last year as the Cool Cities Pilot Program)
- Cool Cities Michigan Main Street
- Cool Cities Blueprints for Michigan's Downtowns
- Cool Cities Blueprints for Michigan's Neighborhoods

Each of these promotes the types of neighborhoods that will help create Cool Cities. Under each of these competitive programs, successful neighborhoods are designated "Cool Cities Neighborhoods." A single Notice of Intent can be submitted to indicate interest in any one of the four Cool Cities Grants & Planning Programs; however, each has its own guidelines and reporting procedures. Each successful applicant has access to the balance of state resources listed in the Resource Toolbox (as does any eligible entity in the state). Cool Cities Neighborhoods in Progress awardees have priority access to the Resource Toolbox resources.

Attached you will find the Request for Proposals (RFP) for each of the Cool Cities Grants & Planning Programs and a chart summarizing each program. If you have questions, please refer to contact information included in the RFP for that specific program.

**APPLICATION PROCESS** The Notice of Intent (NOI) and application will be available online at www.coolcities.com by **February 18, 2005.** The NOI must be submitted **online** no later than **March 11, 2005.** We will review the NOI's for eligibility and threshold criteria, and send notices inviting applications on or **before March 18, 2005.** Full applications will be due no later than **April 29, 2005.** Award announcements will be made **late June 2005.**

The 2005 Cool Cities Grants & Planning Programs

| NAME | State Agency Lead | Description | Eligible Applicant | What They Get! |
|---|---|---|---|---|
| 2005 Cool Cities Neighborhoods in Progress<br><br>(up to 12 selected) | MSHDA | Combination of State Resource Toolbox - grants, loans, tax incentives, services - and Catalyst Grant for creating a neighborhood that will attract and retain urban pioneers. Neighborhood must have or be moving to create a mix of residential and commercial uses, mixed- income housing, and a pedestrian-friendly environment. | Local Units of Government and nonprofits. For-profits may partner with a local unit or nonprofit, but the local unit or nonprofit must be the applicant. The neighborhood must be located in a major urban center with 2 – 4 year institution of higher learning, local historic ordinance or National Register Historic District, Arts Agency, and Local Cool Cities Advisory Group. | • Cool Cities Neighborhood designation<br>• Priority access to Resource Toolbox<br>• Up to $100,000 Catalyst Grant |
| 2005 Cool Cities Michigan Main Street<br><br>(up to 4 selected) | MEDC | A long-term management approach to revitalizing and maintaining a successful downtown. This is achieved utilizing the Main Street Four Point Approach: organization, promotion, design, and economic re-structuring. | All municipalities with a traditional downtown or traditional commercial center; with the exception of the City of Detroit, and communities in Oakland County where Main Street programs already exist. | • Cool Cities Neighborhood designation<br>• >$200,000 in technical assistance and training<br>• Special consideration for some MEDC and/or MSHDA programs<br>• State Resource Fair |
| 2005 Cool Cities Blueprints for Michigan's Downtowns<br><br>(up to 10 selected) | MEDC | Based on a market driven approach, HyettPalma, MEDC and MSHDA staff team up to provide a very public process, and action – oriented strategy to revitalize the downtown in a 3 – 5 year period including a market study for the downtown. Local unit pays for half the cost of consultant. | All municipalities | • Cool Cities Neighborhood designation<br>• 50/50 match; MSHDA and MEDC pay for half the consultant fee<br>• Special consideration for some MEDC and/or MSHDA programs<br>• State Resource Fair |
| 2005 Cool Cities Blueprints for Michigan's Neighborhoods<br><br>(up to 4 selected) | MEDC | A consultant works with the local unit of government to identify a vision and priorities for a target neighborhood adjacent to the downtown or traditional commercial district; then provides a specific neighborhood strategy for revitalization including a market plan and course of action. Local unit pays for consultant. | Core Communities that have a low/mod income neighborhood (at least 51% of the residents of the neighborhood have incomes at or below 80% of area median income as defined by US Department of Housing and Urban Development). | • Cool Cities Neighborhood designation<br>• CDBG funding<br>• Special consideration for some MEDC and/or MSHDA programs<br>• State Resource Fair |